

JUN 1984

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Talking Points for DCI: European Gas Security

- o The US effort to head off an increase in West European dependence on Soviet gas in the 1990s may be encountering new difficulties.
- o If European gas demand increases more rapidly than governments now expect, as is likely, construction of a large new pipeline from the USSR may be the only way to cover West European gas needs in the mid-to-late 1990s.
- o High demand projections were a major reason for the sense of urgency during negotiations with the USSR for construction of the Siberia to Western Europe pipeline.
- o However, European gas demand began to fall and official forecasts were revised downward; they make it extremely difficult to imbue European consumers with any sense of urgency.
- o Gas demand has begun to turn upward but it will take at least two years of fairly strong demand growth to force upward revisions of official forecasts. This could cause substantial delays in the development of new non-Soviet gas sources.
- o In addition, internal British politics may block early development of the large Norwegian Sleipner field, which in turn would further delay development of the even larger Troll field.

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- o An alternative option to purchase gas from Dutch offshore fields and one to purchase smaller amounts of Norwegian gas have the major disadvantage of almost certainly delaying development of the Sleipner field.
- o If European gas demand rises fairly rapidly and the development of the Sleipner field is delayed, it may be too late to bring Troll on line soon enough to meet this new demand.
- o The Soviets are extremely well positioned to supply this gas. Their reserves are ample and they have completed four long-distance pipelines in 1981-83; are well along on the fifth.
- o Moscow can price its gas below any large alternative source and still make a substantial profit, and the Soviets can offer massive contracts for large diameter pipe and pipeline equipment to Western European firms.
- o Moscow would obtain large additional hard currency earnings to buy Western equipment and technology and reduce the strain on its oil supply.

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